

100
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Report of Independent Auditors

Figure 6

Certified Public Accountants - A Professional Corporation
101 LARKSPUR LANDING CIRCLE, SUITE 200, LARKSPUR, CA 94939
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ELECTRONIC FRONTIER FOUNDATION, INC.

Statement of Financial Position

December 31, 2003

ASSETS

	<u>2003</u>	<u>2002</u>
Current assets		
Cash and cash equivalents	\$ 456,907	\$ 758,932
Grants receivable	62,500	-
Prepaid expenses	<u>27,259</u>	<u>19,838</u>
Total current assets	546,666	778,770
Property and equipment, at cost	513,724	500,565
Less accumulated depreciation	<u>(118,891)</u>	<u>(137,458)</u>
Net property and equipment	394,833	363,107
Deposits and other assets	<u>13,000</u>	<u>13,000</u>
Total assets	<u>\$ 954,499</u>	<u>\$ 1,154,877</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	<u>\$ 29,953</u>	<u>\$ 9,208</u>
Total current liabilities	29,953	9,208
Net assets		
Unrestricted	374,260	657,883
Temporarily restricted	<u>550,286</u>	<u>487,786</u>
Total net assets	<u>924,546</u>	<u>1,145,669</u>
Total liabilities and net assets	<u>\$ 954,499</u>	<u>\$ 1,154,877</u>

See accompanying notes.

ELECTRONIC FRONTIER FOUNDATION, INC.

Statement of Changes in Net Assets

Year ended December 31, 2003

	Unrestricted	Temporarily Restricted	Totals	
			2003	2002
Support and revenue				
Memberships	\$ 579,049	\$ -	\$ 579,049	\$ 521,661
Foundation and corporate contributions	665,793	100,000	765,793	638,668
Individual contributions	708,918	-	708,918	777,733
Interest and other	14,789	-	14,789	5,879
Net assets released from restrictions	37,500	(37,500)	-	-
Total support and revenue	2,006,049	62,500	2,068,549	1,943,941
Expenses				
Program services	1,954,287	-	1,954,287	1,194,975
General and administrative	230,712	-	230,712	214,100
Fund raising and development	104,673	-	104,673	123,816
Total expenses	2,289,672	-	2,289,672	1,532,891
Change in net assets	(283,623)	62,500	(221,123)	411,050
Net assets, beginning of year	657,883	487,786	1,145,669	734,619
Net assets, end of year	\$ 374,260	\$ 550,286	\$ 924,546	\$ 1,145,669

See accompanying notes.

ELECTRONIC FRONTIER FOUNDATION, INC.**Statement of Functional Expenses****Year ended December 31, 2003**

	Program services	General and administrative	Fund raising and development	Totals	
				2003	2002
Salaries and benefits	\$ 1,253,151	\$ 147,430	\$ 73,714	\$ 1,474,295	\$ 1,038,836
Professional fees	126,289	7,100	-	133,389	87,613
Office expenses	18,263	7,132	3,131	28,526	19,893
Telephone	13,242	7,540	3,540	24,322	22,523
Postage and delivery	8,058	4,029	5,430	17,517	15,709
Occupancy	112,500	11,250	1,248	124,998	76,637
Membership	69,269	-	-	69,269	-
Maintenance and equipment	22,827	-	-	22,827	11,821
Promotion and publications	25,246	21,230	10,901	57,377	115,876
Travel and conferences	75,701	-	-	75,701	28,464
Advertising	161,445	-	-	161,445	21,000
Depreciation	13,418	6,709	6,709	26,836	29,220
Other expenses	54,878	18,292	-	73,170	65,299
	<u>\$ 1,954,287</u>	<u>\$ 230,712</u>	<u>\$ 104,673</u>	<u>\$ 2,289,672</u>	<u>\$ 1,532,891</u>

See accompanying notes.

ELECTRONIC FRONTIER FOUNDATION, INC.

Statement of Cash Flows
Year ended December 31, 2003

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities		
Change in net assets	\$ (221,123)	\$ 411,050
Adjustments to reconcile change in net assets to cash provided by operations		
Depreciation	26,836	29,220
Changes in:		
Grants receivable	(62,500)	-
Prepaid expenses	(7,421)	(6,492)
Accounts payable and accrued liabilities	<u>20,745</u>	<u>(25,553)</u>
Cash provided by operations	(243,463)	408,225
Cash flows from investing activities		
Acquisition of property and equipment	<u>(58,562)</u>	<u>(105,537)</u>
Net increase (decrease) in cash and cash equivalents	(302,025)	302,688
Cash and cash equivalents, beginning of year	<u>758,932</u>	<u>456,244</u>
Cash and cash equivalents, end of year	<u>\$ 456,907</u>	<u>\$ 758,932</u>

See accompanying notes.

ELECTRONIC FRONTIER FOUNDATION, INC.

Notes to Financial Statements

December 31, 2003

Note 1 - Summary of significant accounting policies

Basis of presentation

The Electronic Frontier Foundation, Inc. (EFF) is a non-profit corporation that was formed as a civil liberties organization in 1990 to work in the public interest to promote online privacy, freedom of expression and social responsibility. EFF operates from leased facilities in San Francisco, California.

Basis of accounting

The financial statements of EFF have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the related obligation is incurred.

Grantors may restrict certain support for the activities of EFF to specific purposes or times. EFF classifies such amounts as temporarily restricted net assets in the accompanying financial statements until EFF accomplishes the specific purpose or the specified time elapses.

EFF has applied the provisions of Financial Accounting Standards #116, "Accounting for Contributions Received and Contributions Made" and #117, "Financial Statements of Not-for Profit Organizations".

Property and equipment

Property and equipment acquired by purchase are stated at cost. Depreciation is computed on the straight-line method over estimated useful lives of five to seven years.

Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with a commercial bank

ELECTRONIC FRONTIER FOUNDATION, INC.

Notes to Financial Statements

December 31, 2003

Note 1 - Summary of significant accounting policies (continued)

Cash and cash equivalents (continued)

available on demand. The carrying amount of such cash equivalents approximates fair value due to the short-term nature of these instruments.

Income taxes

EFF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. EFF has been classified as a publicly supported organization as described in Section 509(a)(1) of the Internal Revenue Code. Accordingly, donors are entitled to the maximum charitable contribution allowed by law.

Advertising costs

Advertising costs are charged to expense at the time that the advertising occurs.

Donated services

The value of certain services donated to EFF is not included in the accompanying financial statements. EFF records revenue from only those services that create nonfinancial assets or require specialized skills and would have to be purchased if not provided by donation. There were no such services during the years ended December 31, 2003.

Estimated fair value of financial instruments

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments" requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized on the Statement of Financial

ELECTRONIC FRONTIER FOUNDATION, INC.
Notes to Financial Statements
December 31, 2003

Note 1 - Summary of significant accounting policies (continued)

Estimated fair value of financial instruments (continued)

Position. Management estimates that the aggregate net fair value of financial instruments recognized on the statement of financial position (including receivables, payables and accrued expenses) approximates their carrying value.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Prior year totals

The total columns captioned 2002 represent certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principals. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2002, from which the summarized information was derived.

Note 2 - Risks and uncertainties

At December 31, 2003 and at various times during the year then ended, EFF had deposits in commercial banks in excess of federally insured amounts.

EFF receives substantially all of its revenues from individuals and foundations interested in protecting free speech in digital environments.

ELECTRONIC FRONTIER FOUNDATION, INC.

Notes to Financial Statements

December 31, 2003

Note 3 - Allocation of functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services based on estimates of time and usage.

Note 4 - Commitments

EFF leases office space under a two leases, both of which expire July 31, 2010. Minimum future lease payments under these leases as of December 31 are:

2004	106,556
2005	111,652
2006	117,285
2007	121,976
2008	126,855
2009	131,930
2010	78,817

Note 5 - Temporarily restricted net assets

	December 31, <u>2002</u>	Received <u>2003</u>	Released <u>2003</u>	December 31, <u>2003</u>
Usage restrictions				
Prime number contest	\$ 487,786	\$ -	\$ -	\$ 487,786
Digital Fair use Project	-	25,000	25,000	-
Time restrictions	-	75,000	12,500	62,500
	<u>\$487,786</u>	<u>\$100,000</u>	<u>\$37,500</u>	<u>\$550,286</u>